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CREDIT UNION DEPOSIT GUARANTEE CORPORATION



Annual Report 2004

Vision

A proactive regulator that provides cost-effective protection for Alberta credit union depositors and contributes to the strength and stability of the credit union system.



Mission

To guarantee deposits and maintain confidence in the Alberta credit union system by using a consultative approach with a focus on sound business practices, governance, performance and risk management.



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Celebrating

30
YEARS
of DEPOSIT
PROTECTION
1974 - 2004

Primary Roles

1. Provide a 100% guarantee of deposits held with Alberta credit unions.
2. Regulate credit unions and enforce the Credit Union Act.
3. Review, advise and direct on credit union sound business practices.
4. Monitor credit union performance and implement appropriate actions to improve performance and reduce risks.
5. Establish individual credit union loan approval limits and provide an approval function for loans exceeding these limits.

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Celebrating



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Mission

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Serving Alberta

DEPOSIT GUARANTEE STATEMENT

The Credit Union Deposit Guarantee Corporation guarantees the repayment of all deposits with Alberta credit unions, including accrued interest. Additionally, the *Credit Union Act* provides that the Government of Alberta will ensure that this obligation of the Corporation is carried out.

Corporate Philosophy

We strive to maintain the Deposit Guarantee Fund at a level that will enable us to independently provide the 100% guarantee of credit union deposits. We operate efficiently and effectively in achieving our goals.

We recognize each credit union is an autonomous unit and unique in its operations. We oversee business practices in Alberta credit unions. We review and, where appropriate, approve loan applications submitted to us by credit unions, adhering to sound credit underwriting and proper securitization. We provide mentoring as well as coaching to Alberta credit unions' boards, management, and staff to help enhance their skills. Where unsound business practices or major issues are identified, we work with the credit unions to help them correct or address these matters. In extraordinary circumstances, we impose legislated sanctions resulting in a loss of credit union autonomy. When sanctions are imposed, we work diligently with the credit union to correct deficiencies promptly and to return autonomy as soon as possible.

We maintain open communication with Alberta Finance, Credit Union Central Alberta Limited and the credit union system to ensure a common understanding of each other's role.

Chair's Message

It has been a pleasure and privilege for me to serve the Corporation and its Board of Directors as Chair for another year. Financial performance for the Alberta credit union system was once again very strong in 2004. This success can be directly attributed to the hard work, effort and accomplishments of individual credit unions and the Corporation during the past year. A financially strong credit union system supports our mandate and enhances our 100% deposit guarantee.

This year, the Corporation celebrated its 30th anniversary of serving Alberta credit unions and to mark the occasion, we were delighted to host a reception for Alberta credit unions at the Credit Union Central Alberta Limited Annual General Meeting. Attendance at this special event exceeded our expectations and the feedback from participants was extremely positive. Participants recognized and commented on the significant progress made by the Alberta credit union system and the Corporation in recent years.



Our role as a regulator and deposit guarantor often causes us to be faced with the challenge of maintaining an appropriate balance between fulfilling our regulatory role and providing credit unions with the autonomous powers they desire and need to operate in a competitive marketplace. We encourage and support increased autonomy for individual credit unions with the appropriate balance of accountability and responsibility, while not compromising the role and mandate of the Corporation. This approach leads to a higher degree of "self-regulation". In concert with the increased autonomy, we are clearly focused on a goal of risk based monitoring to ensure effective monitoring of any potential for increased risk. While this approach is helpful and desirable for individual credit unions, in the event of an untoward event developing that would impact the safety of the credit union system, it is imperative to ensure intervention occurs quickly and efficiently at the level required to resolve the matter.

The Corporation, in conjunction with the system, has very effectively managed risks for the changing business environment over the years. As the landscape continues to transform in the financial services industry, it is imperative that we continue to evolve our risk management methodologies both at the individual credit union and Corporation levels. There are many risks facing us, both currently and on the horizon, including such issues as: credit risk, concentration risk (portfolio mix, mergers, geographic) inter-provincial activities, management succession, competitive changes resulting in new lines of business, reputation risk, technology risk, external economic risks, fraud risk, etc. Our corporate direction is to continue to actively monitor and manage known risk and to be proactive in identifying and managing emerging risks.

To support our initiative, during the year we instituted a new internal Risk Management Committee which focuses on risks for the Corporation and individual credit unions. This is an integral part of implementing an enterprise risk management strategy for the Corporation. Additionally, in conjunction with participants from the system, we developed and implemented a more comprehensive borrower risk rating system. We revised and implemented an enhanced process for granting increased discretionary lending limits for credit unions. A formalized Loan Transaction Review Program was rolled out in conjunction with these initiatives to provide credit union management and the Corporation with appropriate management tools to ensure credit disciplines and sound lending principles are maintained and credit and underwriting risks are effectively managed. These enhancements enabled the Corporation to provide far greater autonomy to the credit unions and they have been received very positively.

Since his appointment as the new President and CEO, March 1, 2004, Steve Blakely and his team have worked diligently on delivery of these and many other initiatives. Several meetings were held over the past year with credit unions, Credit Union Central Alberta Limited and Alberta Finance to outline the Corporation's new direction and proactive focus, which were well and favorably received.

The Corporation's success over the year was made possible through the hard work and dedication of all of our employees and the senior management team. The directors would like to extend their sincere appreciation and applaud everyone's outstanding efforts.

The Lieutenant Governor in Council of Alberta appoints the eight members who form the Corporation's Board of Directors. During the year, Rod McDermand retired from the Board and David McDonald was appointed to the Board. We thanked Rod McDermand for his dedication and contribution to the Corporation and wished him well in his future endeavors. I would like to extend appreciation to each of our directors for their commitment and contributions, especially towards strategic planning and governance of the Corporation this past year.

For 2005, some of our key priorities include the implementation of our enhanced stakeholder interaction/communication program, assisting with development of an enterprise risk management program for credit unions, implementing process improvements from our corporate re-engineering program and development of an enhanced on-site verification process (Examination) to maximize the value added to our stakeholders.

We look forward to working jointly with our stakeholders on these and other commonly shared priorities during 2005 and beyond. These initiatives will continue to strengthen all Alberta credit unions who are covered by the 100% deposit guarantee provided by the Corporation.

Bob Splane
Chair, Board of Directors

2005 Goals

PROTECTION

To proactively identify and mitigate risks to the Corporation and the credit union system.

STRATEGIES

- Complete the implementation of an Enterprise Risk Management Framework for the Corporation.
- Commence awareness program with credit unions on enterprise risk management.
- Manage the new Borrower Risk Rating Program.
- Support enhanced accountability and responsibility of credit unions through greater autonomy.

COMMUNICATION

To maintain effective communications and enhanced relationships with all stakeholders.

STRATEGIES

- Develop best practices communication strategy.
- Implement formalized stakeholder liaison/interaction strategy.

REGULATION

To regulate credit unions and enforce the Credit Union Act in a fair and cost-effective way.

STRATEGIES

- Enhance examination process to address complexity of individual credit unions.
- Refine the examination and monitoring processes for various sized credit unions.

EFFECTIVENESS

To maintain an effective organization.

STRATEGIES

- Utilize technology effectively to maintain comprehensive information on the internal and external environment.
- Embrace a continuous improvement process/culture to maximize effectiveness.

2004 Results

GOALS & STRATEGIES	TARGET MET*	RESULTS
<p>GOAL: PROTECTION</p> <p>To identify and mitigate risk to the Corporation and the credit union system.</p> <ul style="list-style-type: none"> Provide information, training, support and understanding to credit unions on the development and implementation of an Enterprise Risk Management Framework. Continue to provide information and training to credit unions on developing management succession and business resumption plans. 		
	<p><i>Carried forward into 2005.</i></p> <p>✓</p>	<ul style="list-style-type: none"> Initial work was commenced on determining the best approach for credit unions to use in developing an Enterprise Risk Management Framework. We are working jointly with Credit Union Central Alberta Limited to deliver information to credit unions in 2005. This initiative will also continue into 2006, in order to provide the necessary assistance to credit unions. Information and assistance was provided to credit unions on management succession and business resumption plans. We are participating in a working group that was set up to develop a Business Resumption Plan Template.
<p>GOAL: COMMUNICATION</p> <p>To maintain effective communications and relationships with stakeholders.</p> <ul style="list-style-type: none"> Communicate regularly with credit unions and provide guidelines on system wide issues and best practices. Continue to meet and communicate regularly with Alberta Finance and Credit Union Central Alberta Limited representatives and credit unions. 		
	<p>✓</p> <p>✓</p>	<ul style="list-style-type: none"> Regular communication was provided to credit unions through our participation in the Credit Union Internal Audit Committee and the Credit Union Lenders Association meetings. In addition, we provided regular Risk Watch and Sound Business Practices Bulletins, and updated the on-line manuals: Lending Guidelines and Risk and Insurance Guidelines. Regular communications and meetings, as required, continued during the year with Alberta Finance, Credit Union Central Alberta Limited representatives and credit unions. We appreciate the positive working relationships we have developed with our stakeholders.

GOALS & STRATEGIES**TARGET
MET*****RESULTS****GOAL: REGULATION**

To regulate and enforce the Credit Union Act in a fair and cost-effective way.

- | | |
|--|---|
| <ul style="list-style-type: none">■ Implement the risk-based approach to regulation into our operational processes.

■ Implement the regulatory approaches for various sized credit unions (small/medium/large). | <ul style="list-style-type: none">✓ □ The second phase of the Credit Union Self Assessment Report (CUSAR) project was started in 2004, for credit unions under \$100 million in assets. 75% have been completed with the remaining due in the first half of 2005. In addition, the CUSAR has been implemented into our examination program.
□ With input from the credit union system, our Borrower Risk Rating System was revised. The CAMEL Risk Rating System was also completed based on the feedback received from credit unions.
✓ □ Regulatory approaches are tailored to the size of the credit union. This approach has been considered in our development of the new procedures for the assignment of discretionary lending limits for credit unions and the new loan transaction review process. Additionally, the examination program utilized takes into account the size of the credit union. |
|--|---|

GOAL: EFFECTIVENESS

To maintain an effective organization.

- | | |
|---|--|
| <ul style="list-style-type: none">■ Utilize technology effectively to maintain data on the internal and external environment to facilitate our Enterprise Wide Risk Management Framework.

■ Continue to focus on key training areas and the necessary tools to enhance core competencies and knowledge base. | <ul style="list-style-type: none">✓ □ Our new database system is under development and specifications include the addition of information fields that will effectively capture important information relating to our internal and external environment. This information will be incorporated into reports being reviewed by our new Risk Management Committee, which is an integral part of our Enterprise Wide Risk Management Framework.
✓ □ Our in-house credit training/mentoring program was finalized and utilized by credit union lending personnel. Core competencies and the knowledge base of staff was improved through the attendance at various training events. Additionally, all staff participated in training on coaching skills and change management. |
|---|--|

* "Performance Measure" targets met

Financial Summary

DEPOSIT GUARANTEE FUND

Equity

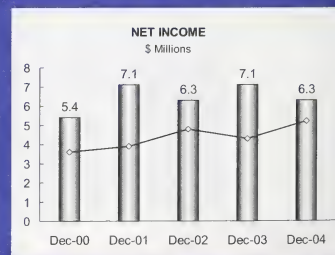
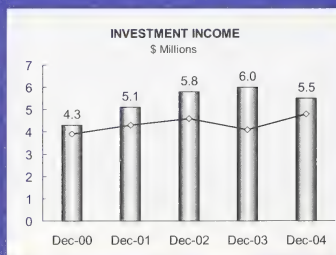
The equity in the Deposit Guarantee Fund is available to protect Alberta credit union depositors. Minimum equity of 1% of total credit union assets or 1% of deposits and borrowings is set out as a standard by the Credit Union Stabilization Funds of Canada. Our minimum equity target for the Deposit Guarantee Fund was changed during the year from 1% of assets to 1% of deposits and borrowings. Equity reached \$96.6 million at December 31, 2004, which represents 1.08% of total credit union deposits and borrowings.

Investment Income

Investment income exceeded the budget for 2004 primarily as a result of gains on sales of investments. The investment portfolio is managed with the objective of meeting the total return of the applicable Scotia Capital Markets All-Government benchmark indices, over a four year period, while maintaining high quality instruments in the portfolio. During the year, the investment portfolio slightly outperformed this benchmark.

Net Income

Net income for 2004 exceeded budget mainly due to unanticipated gains from investment trades and financial assistance payments to credit unions that were estimated but not required.



Assessments

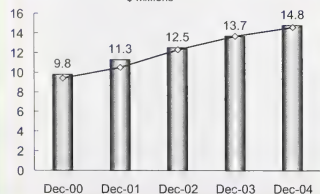
Deposit guarantee assessments for 2004 approximate the budget amount. The assessment revenue has increased from the 2003 actual amount as a result of the growth in the total assessment base (deposits and borrowings) for all credit unions. The assessment rate charged to credit unions was again maintained at 17 basis points of deposits and borrowings.

Administration Expenses

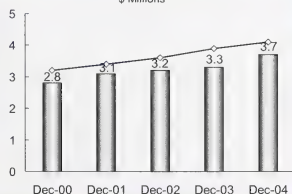
The 2004 administration expenses were better than budget largely as a result of diligent expense management and savings in the areas of staff travel, professional fees and other expenses. The increase in actual administration expenses as compared to last year is primarily a result of salary adjustments required to remain competitive in the marketplace.

30
YEARS
of DEPOSIT
PROTECTION
1974 - 2004

ASSESSMENTS
\$ Millions



ADMINISTRATION EXPENSES
\$ Millions



Actual Budget

Management's Responsibility for Reporting

The financial statements of Credit Union Deposit Guarantee Corporation, and all other information contained in the annual report, are prepared and presented by management, which is responsible for their accuracy, objectivity and completeness. This responsibility includes presenting the statements in accordance with Canadian generally accepted accounting principles. Preparation of the statements necessarily involves the use of estimates which are made using careful judgement.

Management is responsible for maintaining a system of internal controls designed to provide reasonable assurance as to the reliability of financial information and the safeguarding of assets.

The Board of Directors has the ultimate responsibility for these financial statements. The Board oversees management's responsibilities for financial reporting through an Audit Committee, composed entirely of directors who are not officers or employees of the Corporation. The Committee reviews the financial statements and recommends them to the Board for approval.

To carry out its duties, the Audit Committee reviews the annual financial statements, as well as issues related to them. The Audit Committee also assesses the effectiveness of internal controls over the accounting and financial reporting systems. The Audit Committee's review of financial reports includes an assessment of key management estimates and judgements material to the financial results.

The external auditor conducted an audit of these financial statements in accordance with Canadian generally accepted auditing standards. The external auditor has full and unrestricted access to the Audit Committee to discuss his audit findings as to the integrity of the Credit Union Deposit Guarantee Corporation's financial reporting and adequacy of internal controls.

The Auditor General has examined these financial statements and his report follows.

S.G. Blakely
President and Chief Executive Officer

E. Friedrich, CA
Vice President, Finance and Administration

Auditor's Report



To the Directors of the Credit Union Deposit Guarantee Corporation

I have audited the balance sheet of the Credit Union Deposit Guarantee Corporation as at December 31, 2004 and the statements of income and equity and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2004 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

 FCA
Auditor General

Edmonton, Alberta
February 11, 2005

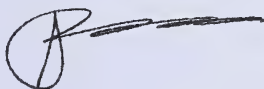
Balance Sheet

December 31, 2004

(\$ Thousands)	2004	2003
ASSETS		
Cash	\$ 10,390	\$ 11,038
Investments (Note 3)	96,774	89,402
Accrued interest receivable	859	797
Income taxes receivable	228	79
Due from Credit Unions	2,735	2,630
Other assets (Note 4)	862	932
Property and equipment (Note 5)	124	169
	\$ 111,972	\$ 105,047
LIABILITIES		
Accounts payable and accrued liabilities	\$ 797	\$ 661
Accrual for financial assistance (Note 6)	1,325	1,265
Deferred revenue	1,102	1,067
Special contribution payable (Note 7)	9,972	9,168
Long-term unclaimed credit union balances payable	483	476
	13,679	12,637
Commitments and contingencies (Note 8)		
EQUITY		
Deposit Guarantee Fund	\$ 96,601	\$ 90,253
Master Bond Fund	1,692	2,157
	98,293	92,410
	\$ 111,972	\$ 105,047

The accompanying notes and schedule are part of these financial statements.

Approved by the Board:



, Director

May C. Arnold, FCA, Director

Statements of Income and Equity

For the Year Ending December 31, 2004

	2004		2004		2003	
(\$ Thousands)	Budget		Actual		Actual	
	(Note 11)					
DEPOSIT GUARANTEE FUND						
Revenues:						
Deposit guarantee assessments	\$	14,643	\$	14,818	\$	13,690
Investment income		4,770		5,530		6,044
		19,413		20,348		19,734
Expenses:						
Provision for (recovery of) financial assistance (Note 6)		225		58		(445)
Special contribution (Note 7)		9,726		9,972		9,168
Administration expenses (Schedule 1)		4,121		3,657		3,322
		14,072		13,687		12,045
Income before income taxes		5,341		6,661		7,689
Income taxes (Note 9)		109		313		541
Net income for the year		5,232		6,348		7,148
Equity at beginning of year		88,515		90,253		83,105
Equity at end of year	\$	93,747	\$	96,601	\$	90,253
MASTER BOND FUND						
Revenues:						
Insurance assessments	\$	1,159	\$	1,123	\$	983
Investment income		71		53		70
		1,230		1,176		1,053
Expenses:						
Insurance premiums		983		917		783
Administration (Schedule 1)		120		120		120
Insurance claims		112		604		87
		1,215		1,641		990
Net income (loss) for the year		15		(465)		63
Equity at beginning of year		2,210		2,157		2,094
Equity at end of year	\$	2,225	\$	1,692	\$	2,157

The accompanying notes and schedule are part of these financial statements.

Statement of Cash Flows

For the Year Ending December 31, 2004

	2004		2003
	Budget	Actual	Actual
<i>(\$ Thousands)</i>			
	(Note 11)		
Operating activities:			
Assessments received	\$ 15,686	\$ 15,916	\$ 14,469
Interest income received	4,622	5,521	6,180
Financial assistance recovered (paid)	(225)	2	10
Interest and bank charges paid	(7)	(3)	(5)
Insurance claims paid	(112)	(389)	(231)
Income taxes paid	(109)	(459)	(637)
Paid to suppliers and employees	(5,143)	(4,620)	(4,198)
Special contribution paid	(9,005)	(9,168)	(8,354)
Cash flows from operating activities	5,707	6,800	7,234
Investing activities:			
Purchase of investments, net	(5,579)	(7,373)	(7,552)
Purchase of property and equipment	(128)	(75)	(58)
Cash flows used in investing activities	(5,707)	(7,448)	(7,610)
Cash inflow (outflow)	0	(648)	(376)
Cash at beginning of year	10,000	11,038	11,414
Cash at end of year	\$ 10,000	\$ 10,390	\$ 11,038

The accompanying notes and schedule are part of these financial statements.

Notes to the Financial Statements

December 31, 2004

Note 1 Authority and purpose

The Credit Union Deposit Guarantee Corporation (the "Corporation") operates under the authority of the Credit Union Act, Chapter C-32, revised Statutes of Alberta, 2000. The Corporation guarantees the repayment of all deposits with Alberta credit unions including accrued interest. The Credit Union Act provides that the Province of Alberta (Province) will ensure that this obligation of the Corporation is carried out. As at December 31, 2004, credit unions in Alberta held deposits including accrued interest totalling \$8,963,176,000 (2003 - \$8,240,499,000). Supervised credit unions receive assistance, support and direction in planning, policy and operational matters from the Corporation.

Note 2 Significant accounting policies and reporting practices

(a) Basis of presentation

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles.

These financial statements reflect separate funds: a Deposit Guarantee Fund and a Master Bond Fund.

The primary objective of the Deposit Guarantee Fund is to enable the Corporation to guarantee the repayment of all deposits, including accrued interest, held by Alberta credit unions. The Deposit Guarantee Fund's statement of income includes deposit guarantee assessments received from credit unions, financial assistance payments recorded on behalf of credit unions, as well as all other revenues and expenses related to the primary objective.

The Master Bond Fund provides insurance coverage to Alberta credit unions under a policy administered by the Corporation. A credit union may claim a maximum of \$100,000 for directors liability claims and \$85,000 for other claims, less its deductible, which is payable out of the Master Bond Fund and a third party reinsurance policy insures the amount of the claim that exceeds \$100,000 or \$85,000 respectively. The Master Bond Fund's statement of income includes insurance assessments received from credit unions, investment income, insurance premiums paid for the reinsurance policy, an administration fee, and insurance claims paid.

(b) Use of estimates

The Corporation's financial statements are prepared in accordance with Canadian generally accepted accounting principles and necessarily include estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. The most significant areas requiring the use of estimates are the accrual for financial assistance, provision for (recovery of) financial assistance, allowance for loan impairment and Master Bond Fund insurance claims (expected and unreported). The Corporation reviews these estimates annually. Actual amounts may differ significantly from those estimates depending upon certain future events and uncertainties.

(c) Cash

Cash consists of a deposit in the Consolidated Cash Investment Trust Fund, which is managed by Alberta Finance to provide competitive interest income while maintaining maximum security and liquidity of depositor's capital.

Notes to the Financial Statements

December 31, 2004

Note 2 Significant accounting policies and reporting practices (continued)

(d) Investments

Investments are carried at cost or amortized cost, with any discount or premium amortized on a straight-line basis over the life of the investments. Investments are written down when there is a decline in value that is other than temporary. Gains and losses on sale of investments are included with investment income in the year of sale. Substantially all securities held are purchased with the intention to hold them to maturity.

(e) Property and equipment

The following rates are designed to amortize the cost of property and equipment over their estimated useful lives:

Furniture and equipment	five year straight-line
Computer equipment	three year straight-line
Leasehold improvements	straight-line over lease term
Computer software	one year straight-line

The Corporation changed the amortization of computer equipment from 30 percent declining-balance to 3 year straight-line in order to more closely reflect its estimated useful life.

(f) Income taxes

The Corporation records income taxes based on the tax liability method. Therefore, future income taxes are recognized based on the tax effects that will arise if an asset is realized or a liability is settled for its carrying amount.

(g) Insurance claims

The Corporation estimates and accrues the Master Bond Fund's share of losses from any reported insurance claims. It makes an additional accrual of the estimated losses from unreported insurance claims based on the last three years' average actual loss experience.

(h) Accrual for financial assistance

The Corporation recognizes financial assistance to specific credit unions as an expense when the need for financial assistance becomes likely and the amount can reasonably be estimated.

Additionally, an accrual for financial assistance is established by assessing the aggregate risk in the Alberta credit union system based on existing capital available in individual credit unions, current and anticipated market and economic conditions, the likelihood of losses, and the application of historic loss experience. It reflects management's best estimate of the losses arising from the inherent risk in the Alberta credit union system. Future economic conditions are not predictable with certainty and actual losses may vary significantly from management's estimate.

(i) Fair value of financial instruments

Most financial instruments are valued at their carrying amounts included on the balance sheet, which are reasonable estimates of fair value. This approach applies to cash, accrued interest receivable, due from credit unions, accounts payable and accrued liabilities, accrual for financial assistance, special contribution payable and long-term unclaimed credit union balances payable. The fair values of investments are disclosed in Note 3.

Notes to the Financial Statements

December 31, 2004

Note 3 Investments

(\$ Thousands)	2004		2003	
	Cost	Market Value ²	Cost	Market Value ²
Securities issued or guaranteed by:				
Canada	\$ 31,620	\$ 32,856	\$ 37,472	\$ 38,519
Provinces	19,817	20,442	17,148	17,682
Other ¹	45,337	46,483	34,782	35,625
Total	\$ 96,774	\$ 99,781	\$ 89,402	\$ 91,826

¹ These securities include shares of Credit Union Central Alberta Limited (\$100,000) and Concentra Financial Services Association (\$15,000), which approximate market value and have no specific term to maturity.

² Market value is calculated using independent pricing sources and Canadian investment dealers.

The investment portfolio is managed by external managers with the objective of providing investment returns higher than the total return of the applicable Scotia Capital Markets All-Government indices over a four year period. The portfolio is comprised of high quality Canadian fixed income and debt related instruments. Competitive investment returns are achieved through management of the portfolio duration and holdings.

As at December 31, 2004, securities held have an average effective yield of 4.70% per annum based on cost (2003 - 4.80%); 3.80% per annum based on market (2003 - 4.10%). These securities have the following term structure based on cost: under one year - 2% (2003 - 1%); over one year and under five years - 51% (2003 - 57%); over five years and under ten years - 47% (2003 - 42%).

The market value of the investments is subject to fluctuation as a result of normal market risk. The principal factor influencing the market value is the prevailing rate of interest. An increase of 1 percent in interest rates will result in a decrease of approximately \$963,000 (2003 - \$889,000) in the market value of the total investments; and conversely, a decrease of 1 percent in interest rates will result in an increase in the market value of the same amount.

Note 4 Other assets

(\$ Thousands)	2004	2003
Prepaid expenses	\$ 835	\$ 903
Future income taxes recoverable (Note 9)	27	29
Total	\$ 862	\$ 932

Notes to the Financial Statements

December 31, 2004

Note 5 Property and equipment

<i>(\$ Thousands)</i>		Cost	Amortization	2004 Net Book Value	2003 Net Book Value
Furniture and equipment	\$	397	\$ 377	\$ 20	\$ 30
Computer equipment		171	116	55	62
Leasehold improvements		127	97	30	56
Computer software		121	102	19	21
Net book value	\$	816	\$ 692	\$ 124	\$ 169

Note 6 Accrual for financial assistance

To fulfill the mandate described in Note 1, the Corporation assists Alberta credit unions experiencing financial difficulties when and as required. The Corporation monitors credit unions experiencing financial difficulty and has a contingent responsibility to provide further financial assistance, the amount of which, if any, is undeterminable at this time.

The book value of the accrual for financial assistance approximates its fair value as it represents the Corporation's best estimate of the future amounts to be paid.

<i>(\$ Thousands)</i>	2004	2003
Accrual for financial assistance:		
Balance at beginning of year	\$ 1,265	\$ 1,700
Provision for (recovery of) financial assistance	60	(435)
Balance at end of year	\$ 1,325	\$ 1,265
Provision for (recovery of) financial assistance:		
Provision for (recovery of) financial assistance	\$ 60	\$ (435)
Financial assistance payments	10	0
Loan loss recoveries	(12)	(10)
Provision for (recovery of) financial assistance	\$ 58	\$ (445)

Notes to the Financial Statements

December 31, 2004

Note 7 Special contribution payable

<i>(\$ Thousands)</i>		2004		2003
Balance at beginning of year	\$	9,168	\$	8,354
Payment of previous year's special contribution		(9,168)		(8,354)
Special contribution for the year		9,972		9,168
Balance at end of year	\$	9,972	\$	9,168

A special contribution is an annual amount payable by the Corporation to the Province under the Credit Union Restructuring Agreement until 2010. It is equal to 0.11 percent of Alberta credit union deposits, including accrued interest and borrowings, as at October 31.

Note 8 Commitments and contingencies

(a) Lease commitments

The Corporation is committed to a non-cancellable operating lease for business premises totalling \$161,000 (2003 - \$299,000)

The following amounts represent minimum payments over the next two years:

2005	138,000
2006	23,000

(b) Litigation

There are legal proceedings pending against the Corporation that arise from normal business activities. Management of the Corporation believes that the financial cost of resolution of these proceedings will not be material to the financial position of the Corporation.

Notes to the Financial Statements

December 31, 2004

Note 9 Income Taxes

The Corporation is a deposit insurance corporation for income tax purposes. Its taxable income excludes assessments and financial assistance recoveries and no deduction may be made for financial assistance, insurance premiums, insurance claims, or special contributions paid.

The Corporation's statutory income tax rate is 17.2% (2003 - 20.1%). Income taxes differ from the expected result that would have been obtained by applying the combined federal and provincial tax rate to income before income taxes, for the following reasons:

(\$ Thousands)	2004	2003
Expected income tax expense on pre-tax income at the statutory rate (net of general tax reduction)	\$ 1,067	\$ 1,558
Add (deduct) tax effect of:		
Non-taxable assessments	(2,746)	(2,949)
Non-deductible special contribution	1,718	1,843
Non-taxable provision for (recovery of) financial assistance	10	(89)
Non-deductible insurance premiums	158	157
Non-deductible insurance claims	104	17
Other	2	4
Income taxes	\$ 313	\$ 541

At December 31, 2004 the Corporation had unamortized property and equipment for income tax purposes in excess of related book values of approximately \$157,000 (2003 - \$171,000). The resulting future income taxes recoverable are reflected in Note 4. The Corporation's future effective income tax rate is 17.2%.

(\$ Thousands)	2004	2003
Current income taxes	\$ 311	\$ 528
Future income taxes	2	13
Income taxes	\$ 313	\$ 541

Notes to the Financial Statements

December 31, 2004

Note 10 Directors' and management remuneration

				2004	2003
(\$ Thousands)	Directors Fees or Salary ¹	Other Cash Benefits ²	Other Non Cash Benefits ³	Total	Total
Chair ^{4, 7}	\$ 51	\$ 0	\$ 0	\$ 51	\$ 42
Board Members ^{4, 7}	90	0	0	90	72
Current senior management:					
President and Chief Executive Officer ⁵	\$ 166	\$ 25	\$ 37	\$ 228	\$ 207
Vice President, Finance and Administration	128	13	23	164	149
Vice President, Operations	114	11	14	139	122
Vice President, Credit ⁶	101	8	14	123	130
Manager, Information Services	76	5	12	93	89

¹ Salary includes regular base pay.

² Other cash benefits include bonus payments and accruals.

³ Employer's share of all employee benefits and contributions or payments made on behalf of employees including Canada Pension Plan, Employment Insurance, group Registered Retirement Savings Plan, dental coverage, vision coverage, medical benefits including out of country medical benefits, group life insurance, accidental disability and dismemberment insurance, professional memberships, staff fund, automobile allowances and tuitions.

⁴ The Chair and Board Members are paid on a per diem basis for preparation and meeting time. The Deputy Minister of Finance is a Board Member but receives no remuneration from the Corporation.

⁵ The position was occupied by two individuals during the year. The previous incumbent retired May 31, 2004. The new incumbent started March 1, 2004.

⁶ The position was occupied by two individuals during the year. The previous incumbent was appointed President and Chief Executive Officer on March 1, 2004. The new incumbent started April 1, 2004.

⁷ The minimum and maximum amounts paid to directors was \$4,000 (2003 - \$400) and \$51,000 (2003 - \$42,000) respectively. The average amount paid to directors was \$18,000 (2003 - \$16,000).

Note 11 2004 Budget

The 2004 budget was approved by the Board of Directors on September 22, 2003.

Note 12 Comparative Figures

The 2003 figures have been reclassified where necessary to conform to 2004 presentation.

Schedule of Administration Expenses

SCHEDULE 1

For the Year Ending December 31, 2004

	2004		2004		2003	
(\$ Thousands)	Budget		Actual		Actual	
Deposit Guarantee Fund						
Salaries and benefits	\$	2,847	\$	2,742	\$	2,599
Professional fees		303		177		115
Staff travel		245		171		149
Rental charges		171		168		161
Other		206		100		101
Office		137		115		97
Board and committee fees		153		141		114
Amortization		135		120		82
Board and committee expenses		44		43		24
		4,241		3,777		3,442
Allocation to Master Bond Fund		(120)		(120)		(120)
	\$	4,121	\$	3,657	\$	3,322

Corporate Governance Practices

The Board of Directors and management have established governance practices that are consistent with the Guidelines for Improved Corporate Governance in Canada adopted by the Toronto Stock Exchange, as set out below. The Corporation will continue to follow best practices guidelines on governance as these come into effect and consider amendments to our practices, as appropriate.

The Board of Directors oversees the business and affairs of the Corporation and operates under formal Terms of Reference. The Board makes all major policy decisions for the Corporation. Many Board functions are carried out by the three committees of the Board.

The Board has a "Code of Conduct and Ethics Policy for Directors" that is acknowledged on an annual basis. The effectiveness of the Board and the committees is assessed annually by each director with the objective of continually improving corporate governance practices.

TSX AMENDED GUIDELINES FOR EFFECTIVE CORPORATE GOVERNANCE

1. The board should explicitly assume responsibility for the stewardship of the corporation and for:
 - a) adoption of a strategic planning process;
 - b) identification of the principal risks of the corporation's business and ensuring the implementation of appropriate systems to manage these risks;
 - c) succession planning, including appointing, training and monitoring senior management;
 - d) a communications policy;
 - e) the integrity of the corporation's internal control and management information systems.
2. A majority of directors should be "unrelated" (independent of management and free from any business or other relationships which would reasonably be perceived to materially interfere with the director's ability to act with a view to the best interests of the corporation).
3. The board should be responsible for applying the definition of "unrelated director" to each individual director and for disclosing annually the analysis of the application of the principles supporting this definition and whether the board has a majority of unrelated directors.
4. The board of directors should appoint a committee of directors, composed exclusively of outside (non-management) directors, a majority of whom are "unrelated" directors, with responsibility to propose new nominees to the board and for assessing directors on an ongoing basis.

GOVERNANCE PRACTICES FOR CREDIT UNION DEPOSIT GUARANTEE CORPORATION (CORPORATION)

1. The Board is responsible for the stewardship of the Corporation and ensures its purposes and business activities as outlined in the *Credit Union Act* are fulfilled, as per its Terms of Reference.
 - a) the Board holds a planning meeting annually for the development of a strategic plan. In accordance with the bylaws, the final plan is approved by the Board and submitted to the Minister of Finance for approval.
 - b) the risks of the Corporation are identified on a regular basis through the strategic planning process and at Board and committee meetings. An Enterprise Risk Management Framework for the Corporation is being formally documented.
 - c) the Governance and Human Resources Committee reports to the Board regarding senior management succession planning and staff training. The Board monitors and approves the appointment of the President and CEO position.
 - d) the Board approves the communications policy for the Corporation.
 - e) the integrity of internal controls and management information systems are reviewed at Audit Committee meetings.
2. The Lieutenant Governor in Council appoints the directors to the Board. The credit union system provides names of two nominated representatives. The Minister appoints the Chair and Vice Chair. The Board annually reviews its composition to determine that a majority of directors are "unrelated" (independent).
3. Since the directors are appointed by the Lieutenant Governor in Council, a majority of directors are "unrelated" and independent of management.
4. The Governance and Human Resources Committee reviews the skill sets of the Board and develops a Board Succession Plan.

TSX AMENDED GUIDELINES FOR EFFECTIVE CORPORATE GOVERNANCE

5. The board should implement a process, to be carried out by the nominating committee or other appropriate committee for assessing the effectiveness of the board, the committees and the contribution of individual directors.
6. The corporation should provide an orientation and education program for new directors.
7. The board should examine its size and undertake, where appropriate, a program to establish a board size which facilitates effective decision-making.
8. The board should review the adequacy and form of the compensation of directors and ensure the compensation realistically reflects responsibilities and risks involved in being an effective director.
9. Committees of the board should generally be composed of outside directors, a majority of whom are unrelated, although some board committees may include one or more inside directors.
10. The board should expressly assume responsibility for, or assign to a committee of directors, the general responsibility for developing the approach to governance issues. The committee would, among other things, be responsible for the response to these governance guidelines.
11. The board, together with the CEO, should develop position descriptions for the board and for the CEO, involving the definition of the limits to management's responsibilities. The board should approve or develop corporate objectives which the CEO is responsible for meeting.
12. The board should have in place appropriate structures and procedures to ensure that it can function independently of management. The chair of the board (non-management), a committee of the board or a "lead-director" (outside director) should have responsibility to ensure the board discharges its responsibilities. This may involve meetings of the board on a regular basis without management present.
13. The audit committee should be composed only of unrelated directors. The roles and responsibilities of the audit committee should be defined to provide appropriate guidance to the members as to their duties. The audit committee should have direct communication channels with the internal and external auditors to discuss and review specific issues. The audit committee duties should include oversight responsibility for management reporting on internal control.
14. The board of directors should implement a system which enables an individual director to engage an outside adviser at the expense of the corporation in appropriate circumstances, subject to the approval of the committee/board.

GOVERNANCE PRACTICES FOR CREDIT UNION DEPOSIT GUARANTEE CORPORATION (CORPORATION)

5. The Governance and Human Resources Committee is responsible for developing and administering performance questionnaires to evaluate performance of the Board and Committees. The performance questionnaires are completed annually.
6. The Governance and Human Resources Committee oversees the orientation and education program, which is provided to new Board members.
7. The size of the Board is eight members as specified in the *Credit Union Act*. A process exists for the Corporation to make recommendations to amend the *Credit Union Act*.
8. Since the Corporation is a Provincial corporation under the *Financial Administration Act*, the compensation for directors is established by the Committee Remuneration Order approved by the Lieutenant Governor in Council.
9. The Committees of the Board and the Corporation Credit Committee as at December 31, 2004, are composed of outside directors who are unrelated.
10. The Governance and Human Resources Committee operates under its Terms of Reference. The committee is responsible to oversee matters of Board governance and to recommend changes to the Board as appropriate.
11. The Governance and Human Resources Committee has developed the position description for the President and CEO. This committee also establishes the annual objectives and targets for the President and CEO and annually assesses the President and CEO's performance. A position description for the Chair was reviewed by the Governance and Human Resources Committee.
12. The Board does not have any directors who are members of management; therefore the Board functions independent of management. The Chair ensures the Board carries out its responsibilities effectively. An in-camera session is a standing item on the Board meeting agenda.
13. The Audit Committee consists of a majority of directors who are independent and free from any relationship that may interfere with the exercise of independent judgement. All members are "financially literate". The roles of the Audit Committee are clearly defined in the *Credit Union Act* and in its Terms of Reference which is approved by the Board. The duties of the Audit Committee include the oversight for management reporting on internal control. The Audit Committee meets annually with external auditors, without management present, to discuss and review specific issues.
14. The Board has made a provision for individual directors to engage an outside adviser at the expense of the Corporation when appropriate. The engagement is subject to approval by the Board.

Committees

MEMBERS
TIMES
COMMITTEE
MET

RESPONSIBILITIES

AUDIT	CORPORATION CREDIT ¹	FINANCE	GOVERNANCE AND HUMAN RESOURCES
(Committee of the Board)		(Committee of the Board)	(Committee of the Board)
2	28	4	4*
Mary Arnold (Chair) Allen Govenlock Peter Kruselnicki David McDonald Ken Motiuk	Rick Bell (Chair) Bob Splane Mary Arnold Ken Motiuk	Mary Arnold (Chair) Allen Govenlock Peter Kruselnicki David McDonald Ken Motiuk	Brian Evans (Chair) Mary Arnold Bob Splane
<p>This committee acts as a bridge between the Board of Directors and the auditors in overseeing the financial reporting content and process, the appropriate systems of internal control, and the independent audit processes. The committee also reviews the systems of internal control to ensure compliance with legal, ethical and regulatory requirements and that these systems are operating effectively. The functions of this committee are set out in section 87 of the <i>Credit Union Act</i> and it operates under formal Terms of Reference. This committee has fulfilled its functions during the year.</p>	<p>The main function of the Corporation Credit Committee is to monitor the Corporation's Credit Department lending approval processes to ensure sound lending principles are maintained. The Committee delegated the establishment of the loan approval limits for each credit union to the President and CEO (CEO) during the year. When necessary, the Committee will approve loans that exceed the CEO limits. This committee operates under formal Terms of Reference and has fulfilled its functions during the year.</p>	<p>This committee monitors the financial performance of the Corporation and reports to the Board of Directors. The committee also recommends financial policies of the Corporation. The functions of this committee are set out in section 81 of the <i>Credit Union Act</i> and it operates under formal Terms of Reference. This committee has fulfilled its functions during the year.</p>	<p>The main functions of this committee are to oversee matters of Board governance and evaluation, maintain Board Governance Handbook and Corporation Bylaws, develop Board Succession Plan, oversee orientation and education plan for directors, monitor compliance with Code of Conduct and Ethics, Terms of Reference and Memorandum of Understanding with the Minister of Finance and monitor the risk process for the Corporation enterprise-wide. This committee also reviews corporate human resource matters, the evaluation of the performance of the President and CEO and reviews succession planning for senior management, personnel policies and overall employee compensation arrangements. This committee operates under formal Terms of Reference and has fulfilled its functions during the year.</p>
			<p>* In September, 2004, the Board Governance Committee and Human Resources Committee were combined to form the "Governance and Human Resources Committee". The Human Resources Committee held 2 meetings in 2004, which is not included in this times met number.</p>
	<p>¹ Steve Blakely, the President and CEO, was a member of the Committee from March 9 to November 19, 2004.</p>		

Celebrating a Milestone

As 2004 came to a close, the Corporation celebrated its 30th anniversary of deposit protection in Alberta. In times of challenge and change it is gratifying to reflect on and celebrate the role we have played in regulating the business practices of credit unions over the past three decades. As a result of the combined efforts of all stakeholders, the credit union system has enjoyed outstanding achievement and development to a financially strong and stable system in Alberta.

30
YEARS
OF DEPOSIT
PROTECTION
1974 - 2004

Board of Directors

The Corporation is administered by a Board of Directors appointed by the Lieutenant Governor in Council of Alberta.

Bob Splane, Chair	A corporate director Boyle, Alberta
Mary Arnold, FCA, Vice Chair	President, Richford Holdings Ltd. Edmonton, Alberta
Rick Bell	A nominated representative from the credit union system Barrhead, Alberta
Brian Evans, Q.C.	Partner, Miller Thomson LLP A nominated representative from the credit union system Calgary, Alberta
Allen Govenlock, CA	Partner, Ellis Govenlock LLP Edmonton, Alberta
Peter Kruselnicki	Deputy Minister of Finance, Province of Alberta Edmonton, Alberta
David McDonald	A corporate director Rocky Mountain House, Alberta
Ken Motiuk	Farm business owner A corporate director Mundare, Alberta



Celebrating a Milestone

MEMBERS: TIMES COMMITTEE MET

RESPONSIBILITIES

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Allen Govenlock
Peter Kruselnick
David McDonald
Ken Motiuk

Rick Bell (Chair)
Bob Splane
Mary Arnold
Ken Motiuk

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CHRISTIAN CREDIT UNION LTD. CLOVER BAR CREDIT UNION LTD. CLUNY SAVINGS & CREDIT UNION LTD. COMMON WEALTH CREDIT UNION LIMITED COMMUNITY CREDIT UNION LTD. EDSON SAVINGS & CREDIT UNION LTD. EAGLE HILL & DISTRICT SAVINGS & CREDIT UNION LTD. ECKVILLE DISTRICT SAVINGS & CREDIT UNION LTD. EDMONTON POSTAL CREDIT UNION LTD. EDSON SAVINGS & CREDIT UNION LTD. EMERGENCY SERVICES CREDIT UNION LTD. 1st CHOICE SAVINGS & CREDIT UNION LTD. FIRST CALGARY SAVINGS & CREDIT UNION LTD. Caisse HORIZON CREDIT UNION LTD. INDUSTRIAL SAVINGS & CREDIT UNION LTD. INGLEWOOD SAVINGS & CREDIT UNION LTD. KEY SAVINGS & CREDIT UNION LTD. KHALSA CREDIT UNION (ALBERTA) LIMITED LAKELAND CREDIT UNION LTD. LEGACY SAVINGS & CREDIT UNION LTD. LETHBRIDGE LEGION SAVINGS & CREDIT UNION LTD. MACLEOD SAVINGS & CREDIT UNION LTD. MEDICINE HAT CIVIC EMPLOYEES SAVINGS & CREDIT UNION LTD. MOUNTAIN VIEW CREDIT UNION LTD. P.C.A. SAVINGS & CREDIT UNION LTD. PEGASUS SAVINGS & CREDIT UNION LTD. 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Board of Directors

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Bob Splane, Chair

A corporate director
Boyle, Alberta

Mary Arnold, FCA, Vice Chair

President, Richford Holdings Ltd.
Edmonton, Alberta

Rick Bell

A nominated representative from
the credit union system
Barrhead, Alberta

Brian Evans, Q.C.

Partner, Miller Thomson LLP
A nominated representative from
the credit union system
Calgary, Alberta

Allen Govenlock, CA

Partner, Ellis Govenlock LLP
Edmonton, Alberta

Peter Kruselnicki

Deputy Minister of Finance,
Province of Alberta
Edmonton, Alberta

David McDonald

A corporate director
Rocky Mountain House, Alberta

Ken Motiuk

Farm business owner
A corporate director
Mundare, Alberta



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